

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 1999-480-W - ORDER NO. 2000-0507

JUNE 15, 2000

IN RE: Application of Quail Ridge Water Company     )  
for Approval of an Increase in its Monthly         )  
Water Rates for its Customers in Clarendon         )  
County, South Carolina.                                 )

vdl

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Application of Quail Ridge Water Company (Quail Ridge or the Company) for approval of an increase in its water rates. Quail Ridge serves residential customers in Clarendon County, South Carolina. The Company has 79 customers, and is presently operating under rates set by this Commission in Docket No. 92-184-W by Order No. 92-975, dated November 16, 1992.

Pursuant to the instructions of the Commission's Executive Director, the Company published a Notice of Filing, one time, in newspapers of general circulation in the Company's service area, and served a copy of said Notice on all affected customers in the service area. The Company furnished affidavits to show that it had complied with the instructions of the Executive Director. A Petition to Intervene was filed by the Consumer Advocate for the State of South Carolina (the Consumer Advocate).

Accordingly, a hearing was held on June 8, 2000 at 10:30 AM in the offices of the Commission. As per State law, a panel, consisting of Commissioners Clyburn, Carruth, and Moseley heard the case. Commissioner Clyburn acted as Chairman. William H.

Johnson, Esquire represented Quail Ridge. The Company presented the testimony of Mr. Henry B. Rickenbaker. The Consumer Advocate was represented by Elliott F. Elam, Jr., Esquire. The Consumer Advocate presented no witnesses. The Commission Staff (the Staff) was represented by F. David Butler, General Counsel. The Staff presented the testimony of Sharon G. Scott, Auditor, and William O. Richardson, Engineer Associate.

Mr. Henry Rickenbaker testified on behalf of the Company. Mr. Rickenbaker noted that he had owned the utility since 1977, and that the Company has 79 customers. The system is considered built out, since DHEC has permitted it for 81 customers. Mr. Rickenbaker noted that, due to his age, he has had to enter into an agreement with someone to manage and maintain the system on a daily basis at the rate of \$200 per week. Mr. Rickenbaker testified that he had no problem with any of the Commission Staff's adjustments, and agreed that he would refund or credit to the appropriate customers the total of \$404 extra that he inadvertently collected from his customers for DHEC testing fees. Mr. Rickenbaker seeks an increase from \$9.50 per month for water service to \$16.00 per month.

Sharon Scott, Staff Auditor, also testified. Ms. Scott noted that the Company's per book figures produced Total Income for Return of \$5,926 and an Operating Margin of 47.69%. After accounting and pro forma adjustments to the Company's per book numbers, Staff computed a Total Loss for Return of (\$1,813) and an Operating Margin of (19.88%). After adjusting for the proposed increase without the management expense, Staff computed Total Income for Return of \$3,511 and an Operating Margin of 22.86%.

Ms. Scott rejected a number of adjustments proposed by the Company, simply because they were based on estimates, or could not be verified, and thus, were not known or measurable. Various expenses were also allocated between the utility company and the owner's other companies, such as bookkeeping expense, and office electric and telephone expense.

The Company proposed the inclusion of expenses for a manager to maintain the water system. Although Staff was unable to verify this expense at the time of the audit, the Company furnished a written contract between the Company and a manager as a late-filed exhibit.

William O. Richardson, Engineer Associate, also testified for the Commission Staff. Richardson explained that the Company is seeking an increase in revenues of \$6,240. Staff removed \$1,800 in tap fees from test year revenue, since these are considered contributions in aid of construction. Utilities removed \$1,750 in DHEC testing fees as a pass through, whereas the Audit Department removed \$1,346, a difference of \$404. Richardson noted that the Company proposed increasing its flat rate from \$9.50 per month to \$16.00 per month.

#### **FINDINGS OF FACT**

1. Quail Ridge is a water utility under the jurisdiction of the Commission, and it serves a residential area of Clarendon County, South Carolina. (See testimony of Rickenbaker.)
2. Quail Ridge is seeking a rate increase in its flat rate water charges from \$9.50 to \$16.00 per month. (Testimony of Rickenbaker and Richardson.)

3. The system presently has 79 customers. (See testimony of Rickenbaker.)

4. The Commission Staff's adjustments should be adopted in toto, and are appropriate as explained in the discussion above, and as noted in Staff testimony. Even after adoption of all adjustments, including the management fee of \$10,400 if the Commission granted the entire rate increase request of the Company, the operating margin would be (39.40%).

5. The testimony presented justifies our granting of the entire rate increase requested by the Company, since it is clear that Quail Ridge is presently operating, and will continue to operate at a loss, even with the granted increase.

6. The Company should either refund or credit to the proper customers the over-collection of \$404 for DHEC testing fees.

#### **CONCLUSIONS OF LAW**

1. Quail Ridge is a water utility operating in Clarendon County, South Carolina.

2. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. Section 58-5-10 et seq (1976) as amended.

3. The Commission concludes that each of the Staff adjustments proposed by the Commission Staff is appropriate and each is hereby adopted by the Commission, based on the reasoning as stated above. We also allow the management fee as an expense. (See testimony above and late-filed exhibit.)

4. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rate of a public utility. For a water utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the “operating ratio” and/or “operating margin” method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the total operating income for return by the total operating revenues of the utility. The Commission concludes that the use of the operating margin is appropriate in this case.

5. The Commission is mindful of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirement of the Company, but also the proposed price for the water treatment, the quality of the water service, and the effect of the proposed rates upon the consumers. We note that customers of the system had no service complaints.

6. Based upon all of these considerations, the Commission determines that the Company should have the opportunity to earn a (39.40%) operating margin on its water operations. In order to have a reasonable opportunity to earn a (39.40%) operating margin, the Company will need to produce \$15,360 in total annual operating revenues.

**TABLE A**

**OPERATING MARGIN**

Operating Revenues	\$15,360
Operating Expenses	<u>21,412</u>
Net Loss for Return	<u>( 6,052)</u>
Operating Margin	<u>( 39.40%)</u>

7. In order to earn the operating revenues necessary to earn an operating margin of (39.40%), the Company must earn revenues of \$15,360. In order to earn these revenues, we hold that the rate of \$16.00 per month flat rate should be granted. We also hold that the Company should either refund or credit to the proper customers the \$404 over-collection from DHEC testing fees.

8. Accordingly, it is ordered that the rates attached in Appendix A are hereby approved for service rendered on or after the date of this Order.

9. It is ordered that if the approved schedule is not placed in effect within three (3) months after the date of this Order, the approved schedule shall not be charged without written permission of the Commission.

10. It is further ordered that the Company maintain its books and records for water operations in accordance with the NARUC Uniform System of Accounts for water utilities as adopted by this Commission.

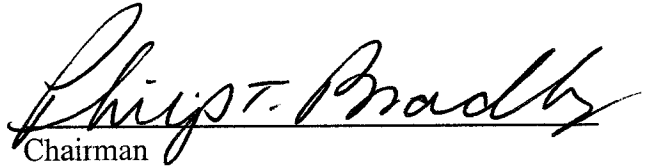
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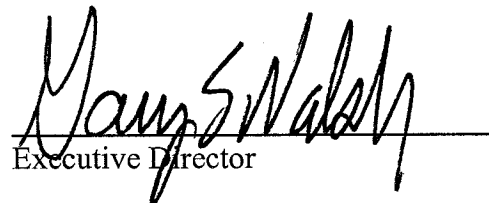
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11. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Executive Director

(SEAL)

**APPENDIX A**

**QUAIL RIDGE WATER COMPANY  
P. O. BOX 7  
SUMMERTON, SC 29418  
803-435-8414**

FILED PURSUANT TO:  
DOCKET NO. 1999-480-W  
ORDER NO. 2000-0507  
EFFECTIVE DATE – JUNE 15, 2000

**SCHEDULE OF WATER RATES AND CHARGES**

- |                                 |            |
|---------------------------------|------------|
| 1. Monthly Service Charge ..... | \$ 16.00   |
| 2. Tap Fee.....                 | \$450.00 * |

\*Previously approved in Docket No. 92-184-W.